Now Is the Time to Buy This Top Oil Stock

Description

Oil has plummeted sharply in recent days to see the international benchmark Brent trading at around US$57 a barrel and the North American price West Texas Intermediate (WTI) fall to well under US$50 per barrel. This recent drop has occurred despite OPEC and its allies securing a last-minute agreement to shave 1.2 million barrels daily off their oil output. That has seen oil stocks plummet creating an opportunity for contrarian investors seeking to bet on higher oil by investing in quality upstream oil producers. One company that stands out is **Parex Resources Inc.** (TSX:PXT), which has lost 29% over the last three months.

Quality oil assets

Parex operates in the Latin American nation of Colombia, where it has 1.6 million net acres spread over 22 blocks located in the Llanos and Magdalena basins. It has oil reserves of 162 million barrels that have been independently valued to be worth US$2.5 billion after tax, which equates to around $21 per share after allowing for the current exchange rate. That is 40% higher than Parex's current market price, indicating that the driller is very attractively valued and there is considerable potential upside available once oil recovers.

Because of its high-quality oil assets and robust balance sheet, Parex undertook a strategic appraisal earlier this year aimed at identifying how to unlock further value for shareholders. As a result of that review, the driller has elected to buy back up to 10% of its common shares because management believes that the market is not recognising Parex's true value. This will help to bolster the company's value.

Solid results

Parex's strengths are easy to see when examining its solid third quarter 2018 results. Oil production for the period shot up by an impressive 24% year over year to 45,020 barrels daily and was 99% weighted to petroleum liquids. Parex's exceptional operating netback of US$44.41 per barrel of crude sold stands out from those results, and that netback was an impressive 59% greater than for the same period in 2017 and higher than Parex's peers operating in North America.

As a result, the company announced a solid increase in net income, which shot up by 60% year over year to US$88.7 million.

That significant improvement in Parex's financial performance can be attributed to a combination of substantially firmer oil prices, higher production, lower operating expenses and the ability to access Brent pricing. That last point is important to note because Brent trades at a significant premium to WTI of almost US$10 a barrel, giving Parex a financial advantage over its peers operating solely in North America.

An important aspect of Parex's operations is its robust balance sheet and considerable liquidity. The company finished the third quarter with US$361 million in cash, no long-term debt and an undrawn US$200 million bank credit facility, underscoring Parex's ability to endure another oil price collapse, which some analysts predicted would occur in 2019.

Why buy Parex?

There is every likelihood that once the new OPEC production cuts come into force in January 2019 that oil prices will surge, and Brent could rise to as high as US$70 per barrel. This will give Parex's earnings and the value of its oil reserves a healthy boost, which along with its share buyback, will bolster its market value, making it likely that its shares could double.

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